

## Message Text

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15

ORIGIN EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 ISO-00 AGR-05 AGRE-00

AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 STR-04 ITC-01 L-03 NSC-05 SS-15 CEA-01 H-02

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DRAFTED BY EB/ICD/TRP:TJO'DONNELL:BLO

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R 110059Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MEXICO

AMEMBASSY PARIS

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN SALVADOR

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

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E.O. 11652: N/A

TAGS: ETRD, EAGR, BR

SUBJECT: COFFEE: BRAZILIAN PURCHASE OF IVORY COAST AND  
MADAGASCAR COFFEE - 2ND AIDE MEMOIRE

1. FOLLOWING IS TEXT OF AIDE MEMOIRE PRESENTED TO  
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AMBASSADOR PINHEIRO BY DEPUTY ASSISTANT SECRETARY KATZ

ON SEPTEMBER 10.

BEGIN TEXT

THE UNITED STATES GOVERNMENT CONTINUES TO BE CONCERNED OVER THE ANNOUNCEMENT OF THE PURCHASE BY BRAZIL OF 560,000 BAGS OF COFFEE FROM EL SALVADOR. THAT CONCERN HAS BEEN HEIGHTENED BY NEW REPORTS OF NEGOTIATIONS FOR THE PURCHASE OF COFFEE FROM THE IVORY COAST AND MADAGASCAR. ON THE BASIS OF THE EXPLANATIONS OFFERED THUS FAR, THE UNITED STATES GOVERNMENT DOES NOT FULLY UNDERSTAND THE RATIONALE FOR THE PURCHASE. SINCE ITS AIDE MEMOIRE OF AUGUST 5, THE UNITED STATES GOVERNMENT HAS RAISED THIS ISSUE IN THE MEETING OF THE EXECUTIVE COUNCIL OF THE INTERNATIONAL COFFEE ORGANIZATION. THE BRAZILIAN REPRESENTATIVE AT THAT MEETING WAS UNINSTRUCTED AND NOT PREPARED TO RESPOND.

THE SUCCESS OF THE INTERNATIONAL COFFEE AGREEMENT DUE TO COME INTO EFFECT OCTOBER 1--AS WELL AS CONSIDERATION OF FUTURE COMMODITY AGREEMENTS--DEPENDS IN LARGE MEASURE ON MUTUAL UNDERSTANDING AND COOPERATION AMONG THOSE COUNTRIES WITH THE MAJOR SHARES OF WORLD COFFEE TRADE. THE UNITED STATES GOVERNMENT AND THE GOVERNMENT OF BRAZIL HAVE A SPECIAL RESPONSIBILITY FOR SUSTAINING THE MUTUAL TRUST WHICH SERVED AS THE BASIS FOR CONCLUDING THE NEW AGREEMENT.

UNFORTUNATELY, THE PURCHASES FROM EL SALVADOR AND THE REPORTS OF OTHER PURCHASES RAISE QUESTIONS ABOUT THE INTENTIONS OF THE GOVERNMENT OF BRAZIL. THE UNITED STATES GOVERNMENT RECOGNIZES THAT BRAZIL HAS COMMERCIAL REASONS FOR SUPPLYING ITS FREEZE DRIED COFFEE INDUSTRY WITH ADEQUATE STOCKS. BUT IT FAILS TO UNDERSTAND THE NEED FOR PURCHASES IN EXCESS OF THE CAPACITY OF THIS INDUSTRY. THE SIZE OF THE PURCHASE IS OF PARTICULAR CONCERN, SINCE IT CAN BE CONSTRUED AS AN ATTEMPT TO TAKE ADVANTAGE OF THE VULNERABILITIES OF IMPORTING COUNTRIES IN TODAY'S UNSETTLED MARKET. ITS EFFECT COULD BE TO UNDERMINE THE SUPPORT OF THE U.S. COFFEE INDUSTRY AND CONSUMERS, WHOSE VOLUNTARY COOPERATION IS ESSENTIAL TO THE SUCCESSFUL IMPLEMENTATION OF A SYSTEM OF CERTIFICATES OF ORIGIN FOR LIMITED OFFICIAL USE

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TRACKING WORLD EXPORTS.

THE UNITED STATES GOVERNMENT CANNOT HELP BUT CONCLUDE THAT AT A TIME OF RECORD HIGH PRICES, ACTIONS OF THIS NATURE, WITHOUT PERSUASIVE JUSTIFICATION ON GROUNDS OF IMPORT REQUIREMENTS, ARE NOT IN KEEPING WITH ARTICLE 2(2) OF THE INTERNATIONAL COFFEE AGREEMENT UNDER WHICH MEMBER COUNTRIES UNDERTAKE QUOTE TO ADOPT POLICIES WHICH WILL MAINTAIN

PRICES AT LEVELS WHICH WILL ENSURE ADEQUATE RENUMERATION TO PRODUCERS AND SEEK TO ENSURE THAT PRICES OF COFFEE TO CONSUMERS WILL NOT HAMPER A DESIRABLE INCREASE IN CONSUMPTION UNQUOTE.

THE UNITED STATES GOVERNMENT BELIEVES THAT A CLEAR STATEMENT BY THE GOVERNMENT OF BRAZIL MORE FULLY DEFINING ITS POLICIES WITH RESPECT TO PURCHASES FROM EXPORTING MEMBERS OF THE AGREEMENT WOULD HELP PREVENT THESE MISUNDERSTANDINGS FROM ARISING IN THE FUTURE. END TEXT. KISSINGER

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